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CIA/RR CB 60-16

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14 March 1960

## CURRENT SUPPORT BRIEF

EAST GERMANY REVISES EXCHANGE RATE FOR THE VALUTA MARK

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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EAST GERMANY REVISES EXCHANGE RATE FOR THE VALUTA MARK

The East German government in recent months has begun to report its commodity trade statistics in a valuta (foreign exchange) mark valued at one eastmark to .95 rubles, in effect establishing an exchange ratio of 4.2 eastmarks to the dollar. The new rate, which is the equivalent of both the East German non-commercial rate for the dollar and the West German official rate of exchange, is a far better reflection of the relative purchasing power of the eastmark than is the current official commercial rate of exchange of 2.2 eastmarks to the dollar.\*

In a lead article appearing in the official newspaper Neues Deutschland (6 December 1959), Heinrich Rau, East German Minister for Foreign and Interzonal Trade, stated that commodity trade between East Germany and the USSR during 1960-65 will be "over 50 billion valuta-rubles, which corresponds to a sum of 52½ billion marks." At the current official commercial rate of exchange, the corresponding sum would be only 27.8 billion marks. A subsequent article appearing in the same newspaper (8 January 1960), though containing only a confused and inadequate explanation of the rationale behind the adoption of this new valuation of the eastmark, indicates that it now will be the policy of the Ministry to apply this rate when dealing with foreign trade matters. Thus far, however, the East German government has not issued a decree officially announcing the new exchange rate.

It should be pointed out that, inasmuch as Satellite currencies are not utilized in international settlements,\*\* the principal effect of such a revision in East Germany will be felt in its system of domestic accounting for foreign trade transactions. A revision of the foreign exchange rate alone, unaccompanied by revisions in the domestic price structure, will have no effect on the net amount of price equalization funds which must be covered in the national budget. Nevertheless, this de facto "devaluation" of the eastmark automatically reduces the "profits" on individual import transactions as well as the "losses" on individual exports. The "devaluation" also should lessen somewhat the tendency of East German exporters and importers, so prevalent in the past, to claim no responsibility in any given transaction for the wide difference between the eastmark equivalent of the foreign exchange received or paid out and the value of the product at domestic prices, the total amount of which had to be equalized through the domestic accounting system. With the elimination to a large extent of the distortions created by an artificial exchange rate, the remaining differences should now be more representative of variations in the East German domestic price structure. The values of exports and imports in terms of the new foreign trade mark will more closely approximate average mark-dollar ratios, thus making it more feasible for East German planners to determine to what extent domestic costs are inconsistent with average industrial costs in other countries.

\* This is not to say that the real values of the east and westmark are equal inasmuch as the official rate for the westmark considerably undervalues it.

\*\* In intra-Bloc trade the ruble represents the clearing unit of account whereas in Bloc trade with the Free World clearing accounts are based on the currency of the Western partner involved or on the "hard" currency of some third country, e.g., British pounds or U.S. dollars.

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There are at present no indications that the other European Satellites are planning similar moves to adopt for commercial purposes the non-commercial rates established during 1957-58 or any other more realistic valuation of their currencies. It is, nevertheless, possible that these steps will be taken eventually. In view of current attempts throughout the Communist Bloc to measure the profitability and efficiency of foreign trade activities, it would appear that simplification of their domestic accounting practices alone would be sufficient justification for similar changes in their exchange rates.

Tabulation of Official Rates of Exchange  
of the East German Mark


Commercial Transactions

1 DME = \$.45 US  
1 DME = 1.8 Rubles

Non-Commercial Transactions

1 DME = \$.25 US  
1 DME = 2.6 Rubles

25X1A

Analyst:  *deleted*

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